

USAWC STRATEGY RESEARCH PROJECT

**IMPLEMENTATION OF MANAGEMENT INITIATIVE
DECISION (MID) 913 – BACKGROUND
AND IMPACT WITHIN DOD**

by

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This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

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ABSTRACT

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The Department of Defense will formulate two-year budgets and use the off-year (odd numbered year) to focus on budget execution and program performance. Services, Combatant Commands, and Defense-Wide Agencies will submit their Program Objective Memorandums and Budget Estimate Submissions every two years vice each year. The intent of the off-year is to allow limited changes to the baseline programs. Services, Combatant Commands, and Defense-Wide Agencies will submit off-year changes using Program Change Proposals and Budget Change Proposals. In the off-year, equal offsets will accompany changes to these proposals to ensure this is a zero sum event. However, implementing MID 913 at a time when our nation is at war, will be difficult. Though the intent of the off-year is to have limited change submissions, one can expect just the opposite, as OPTEMPO in DoD is at a monthly burnrate in the billions. Contrary to DoD guidance, mixing war with a peacetime budget will exponentially cause reason to have major reprograms, annual supplemental, and numerous change proposals – both program and budget! The new process assumes there will be little movement of programs in the off-year. Bottom line: This paper will discuss the history leading to the implementation of MID 913, lessons learned from the recent FY 2005–2009 Program and Budget Review, and ways to improve the process in the future, as well as recommend areas not to be changed.

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IMPLEMENTATION OF MANAGEMENT INITIATIVE DECISION (MID) 913 – BACKGROUND AND IMPACT WITHIN DOD

The Department's current planning, programming, budgeting and acquisition systems are rigid, unresponsive and ill-suited for a dynamic and uncertain security environment. DoD needs to streamline and integrate Planning, Programming, and Budgeting System (PPBS) and the major acquisition and requirements processes with particular attention paid to those areas where technological change occurs most rapidly.

—Defense Planning Guidance
Fiscal Years (FYs) 2004-2009

On 22 May, 2003, the Department of Defense (DoD) approved the implementation of a two-year Planning, Programming, Budgeting, and Execution process (PPBE). This improved PPBE process is expected to revolutionize internal DoD budget efforts, increase effectiveness and add additional emphasis to execution. The changes come as a result of Deputy Secretary Paul Wolfowitz direction to the Senior Executive Council (SEC) to study and recommend improvements to the overall DoD decision-making processes.¹

Management Initiative Decision (MID) 913 is a product which came out of the SEC study. MID 913 implements interim initiatives to increase the effectiveness of the programming and budgeting process and add additional emphasis to execution.² MID 913 adds additional focus on the execution process. DefenseLink says the purpose of the new process will be to:

Evolve from an annual Program Objective Memorandum (POM) and Budget Estimate Submission (BES) cycle, to a biennial (two-year) cycle starting with an abbreviated review and amendment cycle for FY 2005. The Department will formulate two-year budgets and use the off-year to focus on fiscal execution and program performance. The two-year cycle will guide the Department's strategy development, identification of needs for military capabilities, program planning, resource estimation and allocation, acquisition, and other decision processes. This change will more closely align DoD's internal cycle with external requirements embedded in status and administration policy. The Quadrennial Defense Review (QDR) will continue to serve as the Department's major statement of defense strategy and business policy. It also will be the single link throughout DoD that integrates and influences all internal decision processes.³

PURPOSE

In that light, this strategy paper will provide insights into the history, timeline, phases, assessment, and recommendations for the MID 913 process.

The analysis and feedback from data collected will show DoD still has shortfalls with offsets, combatant commands (COCOMS) Title 10 Executive Agency (EA) support, and

discipline in controlling program and budget change proposals. I will offer recommendations to reduce these shortfalls. Additionally, I will recommend areas where DoD should not change.

HISTORY OF MID 913

Throughout the 1980s and 1990s, the main phases of PPBS were strictly sequential. In other words, the Defense Planning Guidance (DPG) came out in early Spring; Services submitted POMs followed by their budgets in September.⁴

Defense Secretary Weinberger introduced the two-year budgeting process in 1986 for implementation in the 1988/1989 budgets. There was no POM in 1989 and initially it appeared there would be no FY 89 budget review. However, in November 1987, Office of Management and Budget informed DoD that the top line would be reduced, and Defense Secretary Carlucci asked the Services to submit budgets by December 10 for a shortened Program Budget Decision (PBD) cycle. Although the DoD continued to give lip service to two-year budgeting for the next decade, the reality was a full-blown POM and budget each year.⁵

In the early 1990s, Program Decision Memorandums (PDMs) were traditionally issued on time to influence the Service budget submissions. However, Congressional committees began to await the PDMs before marking the previous year's budget. In the late 1990's, Secretary Cohen adopted a two PDM strategy. By the end of the 1990's, nearly all decisions were in a single PDM issued as late as December.⁶

In the Spring of 2002, the DPG directed that a study of PPBS be conducted by the Services to influence the FY 2005 budget cycle. The purpose of this study was to determine a better way to assess and execute performance management. This study led to several MIDs which provided guidance in various management processes. Some of the key MIDs which came out of this study were MIDs 901, 910, and 913.

MID 901 directed that metrics be used in the program and budget process to monitor performance results. This assessment was under a risk management framework where four key areas were assessed. These areas were:

- Force management risk
- Operational risk
- Future challenges risk
- Institutional risk⁷

MID 910 said DoD must improve budget and performance integration. The metrics used by DoD will be to evaluate if the performance achieved the expected levels from resource expenditure. The goal of MID 910 is to associate metrics with resources

requested in the budget. In accordance with MID 910, "Components within DoD will be required to associate resource requirements with performance metrics. Components will be required to associate 60% of their programs in the FY 2005 to a metric; 80% of the programs in FY 2006; 100% of programs in FY 2007."⁸

MID 913 implemented a 2-year Planning, Programming, Budgeting, and Execution (PPBE) process, consisting of two sequential two-year cycles, to correspond with a Presidential term of office. MID 913 provided the basic requirements which were needed to initiate this process in FY 2005."⁹ The key aspects of MID 913 were to revamp the PPBS process, and get DoD back on a two-year budget (budget and execution year) submission cycle. The off-year (defined as the odd-numbered year) will be used to focus on performance of programs within DoD. The on-year or even years (2006, 2008, 2010, etc...) will be the period internal components subordinate to OSD complete and turn in their Program Objective Memorandums (POMs) and Budget Estimate Submissions (BES).¹⁰ Two-year cycles will allow OSD to have a full POM and BES completed during the even-numbered calendar year, while the odd year will be an "adjustment" year. Adjustments made during the odd year in the program and budget review will be composed of change proposals to the previous year's submission (even year). MID 913 guidance directed the following changes in the PPBE process:

- Two-year cycle which will guide the PPBE process.
- Not introduce major changes in the odd years (2005, 2007, 2009, etc...).
- Off-year (2005, 2007, 2009, etc...) review focus will be on execution and performance.
- Create a single standardized programming and budgeting system for data collection and management.
- Incorporate metrics and cost models.
- Over time, metrics will become the analytical underpinning to ascertain whether appropriate allocation of resources exists.
- Adjust resources to achieve desired performance goals.¹¹
- Title 10 responsibilities and requirements do not change, including the Chairman, Joint Chiefs of Staff role as the principal military advisor to the Secretary of Defense on all military matters, including the budget.¹²

In conjunction with MID 913, DoD recently published the results of the "Aldridge Study" in December 2003. The purpose of this study was to focus on joint capabilities. The findings of the study concluded:

- Services dominate the current requirement process

- Service planning does not consider full range of available solutions to meet joint warfighting needs
- Resourcing functions focuses senior leadership effort on fixing problems at the end of the process rather than early in the planning process¹³

The Aldridge study made key recommendation to the PPBE process. These were:

- Joint needs will form the foundation for the defense program
- Planning for major joint capabilities will be drawn at the Department level vice the component level
- Senior leaders will focus on providing guidance and making decisions in the “front end” of the process¹⁴

Since the recent OSD program review took place during an odd year (FY 2005 cycle), there was not a POM submission. In place of the POM, the Services, Defense Agencies and COCOMs submitted Program Change Proposals (PCPs). Each PCP addressed a single issue that had significant impact to the Future Years Defense Plan (FYDP) and should be fully resourced, i.e. change proposals must include equivalent offsets. Dollar thresholds for PCPs were determined by the Director, Program Analysis and Evaluation. For FY 2005-2009, the Services and Defense-Wide Agencies had a threshold of \$250 million across the FYDP. PCPs for smaller issues were considered if they involved policy implications. Combatant Commanders could submit up to six PCPs with no dollar limitation. The PCP review process was similar to previous POM issue reviews with at least one exception; OSD evaluated all PCPs received and notified the Services and Defense Agencies of the results. “Accepted” PCPs were “approved” for further detailed justification and were processed at OSD and resolved at the Secretary of Defense or Deputy Secretary Defense decision level. Usually when the Defense Secretary made a decision on the program change proposal, the decision was inputted into the Program Decision Memorandums (PDMs). “Rejected” PCPs were returned to the submitter with no further action required.¹⁵ “PCPs submitted with ill-defined, unclear programmatic impacts or frivolous, pro rata program reductions were returned to submitting organizations for additional information.”¹⁶

In place of the BES submission during the FY 2005 cycle, BCPs were submitted in October (not simultaneously with PCPs). BCP submissions were open to Services, Combatant Commanders, Joint Staff, Defense-Wide Agencies, and OSD. Neither a dollar threshold nor number was enforced during the odd year. BCPs included both the budget year and the FYDP.¹⁷ Services, Combatant Commanders, Joint Staff, and Defense-Wide Agencies had an unlimited number of BCP changes which they could submit. BCPs covered fact-of-life changes

such as cost increases, schedule delays, management reform savings, workload changes, and changes due to congressional actions. Review of BCPs were similar to the even year review of the BES – the Under Secretary of Defense(Comptroller) staff reviewed and resolved the BCP issues through issuance of Program Budget Decisions (PBDs).¹⁸

ASSESSMENT OF THE RECENT FY 2005-2009 PROGRAM AND BUDGET REVIEW

The FY 2005 program and budget review recently ended in December 2003. Lessons learned were completed by the Services, Joint Staff and COCOMs, since this was the first year under direction of PPBE. Two areas of interest stood out as central problems in the process. These were (1) offsets and (2) Title 10 executive agency responsibilities. With offsets, the problem can be broken down even further, as the offset problem seen through the lens of the COCOMs and that of the Services.

Offsets. Offsets were the biggest issue and the most painful part of the process. Offsets are resources an organization must provide OSD in exchange for the program they propose to fund (resource trade-offs). Offsets are “zero-sum” in the sense there is no increase in funding from OSD when an organization requests to increase a program. If an organization wishes to increase resources to a program, they must also be willing to give equal resources back to OSD in return. No organization was excited about providing offsets.¹⁹ From experience, the perception exists, that if an organization offers a proposal change, in conjunction with an offset, and the change is disapproved, the offset can be potentially left at risk.

Service offsets – lessons learned

Services were “nervous” about what they offered in exchange for the proposal. Services had the ability to look into their own programs to find “acceptable risk” but not into other Service or Defense-Wide programs. Service components were required to submit a balanced proposal that is for the total package not each BCP. Services were allowed to cross appropriations as well. Many programs had offsets/enhancements spread across multiple PCPs and BCPs. PCPs were not mutually exclusive and some programs required examination across many PCPs/BCPs.²⁰ Difficulty existed in balancing Service and OSD databases under the current system. Because the program and budget review cycles were completed in only three months, the time to analyze the offsets was shortened. As a result, analysis of the actual acceptance of the offset for the BCP or PCP was short, leaving a greater degree of risk than in the past (when the program and budget review process were separate and distinct).²¹

Combatant Command (COCOM) offsets – lessons learned

COCOMs had limited visibility to look at other COCOMs or Services for offset proposals. A large percentage of the combatant command's total obligation authority is non-discretionary. In other words, about 70% of the warfighting headquarters has little room to move funds around. Most of the COCOM fixed costs each year go to base operations support, with little room to propose a change. The funds that can get moved are typically tied to key programs which are essential for the warfighter e.g. Intelligence programs. Many of the COCOM programs which are non-discretionary, cannot be cut too much or the program will be terminated. There is just not much wiggle room for change proposals in a COCOM. The few offsets submitted by combatant commands were submitted knowing they were unrealistic but "needed to get something on the table." In almost every case, a combatant command proposal had either no offset or an offset too important to be considered.²²

Net results and Recommendations for Service and COCOM offsets

In the end, offset submission was not a success within DoD. Prior to commencement of the FY 2005 combined process, the intent of the PCP/BCP process was to provide minimal changes to the base POM.²³ Offsets were to be practical and realistic. However, too many offsets submitted by the organizations actually were items the organizations knew DoD could not accept, only delaying the obvious answer. Combatant commands should adhere to no more than six budget change proposal submissions in any one cycle. Thresholds/dollar limits must be in accordance with DoD guidance. Only policy change recommendations should be accepted when the dollar change proposal is not met. BCPs and PCPs cannot be submitted with the same change proposal. Both the OUSD(C) and Director, Program, Analysis, and Evaluation are reviewing the same requirement, since the process goes quickly, and the change proposals are not properly scrubbed. DoD anticipated a very small density of change proposal submissions since the intent of these adjustments was to make slight changes due to fact-of-life realities.²⁴ DoD was bombarded with over 300 PCP (over 60 from the COCOMs) and BCPs that normally would have been Service POM adjustments.²⁵ In the end, \$35 billion was made in adjustments in the FY '05 review.²⁶

More latitude should be given to Services to adjust funding (minimal changes) inside of programs just as they would do in a POM year. Tracking over 300 BCPs and thousands of pages of PCPs and BCPs resulted in over \$30B worth of churn, similar to a regular budget year. Both the OUSD(C) and OUSD(PA&E) analysts admit they couldn't effectively track all the impacts across the programmatic spectrum.²⁷ Services did not know the implementation of MID 913 was going to begin during the odd year FY 2005 review cycle. This can be counter-productive to DoD.²⁸

Title 10 Executive Agent (EA) Responsibilities.

Definition of EA

DoD Directive 5101.1 defines a DoD EA as the “Head of a DoD Component to whom the Secretary of Defense or Deputy Secretary of Defense has assigned specific responsibilities, functions, and authorities to provide defined levels of support for operational missions, or administrative or other designated activities that involve two or more of the DoD Components.”²⁹ Each COCOM is assigned a Service as its EA to fund its headquarters.

Combatant Commander Headquarter EA funding issue

Not all COCOM Title 10 EAs fund the same. The Air Force and the Army fund their COCOM headquarters differently. The key difference between the Air Force and the Army is the Air Force will not fund a COCOM requirement if the requirement is physically located outside the ‘fence’ of the base or post. Even after a face-to-face meeting with the Air Force budget office, the Joint Staff was unsuccessful in getting the Service to assist. The Air Force stood by the EA DoD Directive for Support of the Headquarters of Combatant and Subordinate Joint Commands. The bottom line, DODD 5100.3 states “The Secretaries of the Military Departments may designate EAs to provide or arrange for the administrative and logistic support of the headquarters of the Combatant Commands and their subordinate joint commands.”³⁰ US Central Command is a great example of the EA funding dilemma with the Air Force. The Air Force provides funds to USCENTCOM for base operation support inside the fence at McDill Air Force Base, Tampa, Florida. Any costs incurred outside the McDill Air Base are not covered by the Title 10 funding provider (Air Force). As a result, USCENTCOM funds out of hide or requests one of its component commands to pay the costs. As the global war on terrorism costs grew for the USCENTCOM headquarters, operation and maintenance costs grew, but without additional funding to offset the costs.

There are different standards in way the Services fund the combatant command unfunded requirements. Some Services look at all combatant command requirements, regardless of physical location, and fund what is considered prudent. If the COCOM requirement is outside the fence of the headquarters and it is prudent, some Services will fund and some will not. OUSD(C) is currently working options to broaden the EA funding requirements to the combatant commands, to possibly include the operational costs borne outside their fence. OUSD(C) is presently reviewing options for EA funding to the combatant commands, which will expand the current limit (administrative and logistical only) to include headquarters operational costs. The operational costs must be funded even when the costs are borne outside the fence.

Lesson Learned Shortfalls - FY 2005 - 2009 Process

The comments below are lessons learned captured from various components within DoD as a result of the recent FY 2005 –2009 program and budget review.

Process rules need to be adhered to and enforced.

The process rules should be enforced. Many proposals were submitted with either no offset or unacceptable offsets yet the enhancements were deemed as important and continued to be worked as issues.³¹ The DoD guidance said that change proposals will be zero-sum or submitted with an offset. This did not occur in all cases, so there is a process foul in the system. When organizations do not have to provide an offset, someone else will be directed to pay the offset. Resolution of PCPs seemed to take a very long time and disposition of many issues was not forthcoming. This caused confusion on Joint Staff and among combatant commands about status of issues. Even OUSD(PA&E) staff couldn't identify what was happening to specific issues.³²

Vet programs through Joint Capabilities and Integration Development System (JCIDS).

Recommend DoD components vet program starts/enhancements through JCIDs prior to PCP submission. Many DoD offices used PCP submission as the “start” to program builds vice the final stages of the process. As a result, many PCPs were ill-defined, poorly priced, and inappropriately offset. Using the joint process would better integrate, shape, and incorporate these issues upfront and would lessen controversy during program review.³³

Database incompatibility.

Lack of common database between the Services and DoD. Some of the Services use a single database for the program and budget build, yet the OUSD(C) and OSD(PAE) use different databases. This led to problems in translation and understanding.³⁴ Difficulty existed in balancing Service and DoD databases under the current system.³⁵

POMs still completed in off-year.

The off-year does not require a POM submission by the Services, yet the Army will say the only way to achieve the necessary standard is to build a full POM in the off-year.³⁶ Even DoD acknowledges a review of the complete POM is necessary to really submit valid PCPs.

DoD guidance too restrictive.

DoD sent out very restricted technical guidance to Service, COCOM and Defense-Wide Agencies.³⁷ This guidance directed the Services not to submit a database to them, instead, they were to only submit change proposals. As a result, lots of time was spent educating both sides (DoD and the Services) on the change packages.³⁸

Last minute changes.

Too many “last minute” non-concurrences provided unnecessary turbulence in the process resulting in multiple (and unnecessary) 3-Star reviews for the same issue. If dissention is timelier, PCPs could be approved quicker in the process and revisited less often.³⁹ The BCP/PBD process was disjointed, received less analysis/discussion and resulted in larger bills to the services.⁴⁰

PCP and BCP submission conflicts.

In several cases the program and budget review conflicted or hindered progress. Proposal submission dates were 60 days apart between PCP and BCP, yet disposition could not be determined until much later in the process. Several COCOMs were held in limbo waiting for disposition on PCPs and resubmitted their issues as BCPs.⁴¹

COCOMS almost universally believe they did not get a fair shake in this process. They feel their Service EAs did not fund their requirements and none of them got everything they asked. They were happy they got FY '05 changes approved, but did not understand, (even after being told numerous times) that '04 money was going to be extremely hard to come by.⁴² What the combatant commands wanted was current year money or year of execution money.

LESSON LEARNED WHICH WENT WELL - FY 2005 - 2009 PROCESS

- Several of the PCPs (15) were quickly referred to budget review before the BCP submission date, making a clear separation as to the review process for those issues.⁴³
- The announcement of major meetings and dissemination of information worked well. Products were available for multiple staff reviews and decisions made after much input and consideration of the enhancements and offsets.⁴⁴
- The zero-sum PDM prevented last minute programmatic decisions. As a result, upfront negotiations between DoD and the Services provided more informed and agreeable funding positions.⁴⁵
- PCPs provided satisfactory “decision packages” at the appropriate programmatic level for issue teams and senior leaders to evaluate program enhancements against program offsets (risks).⁴⁶
- The DoD screening process weeded out most poorly defined PCPs. Roughly 66 percent of the submitted PCPs were not approved for further review.⁴⁷
- Making all DoD components (other than just the Services) submit PCPs ensured that “good ideas” were accompanied by appropriate offsets (risks). This limited risk to current validated programs.⁴⁸

- Increased interaction between DoD program and comptroller offices and the Services encouraged more informed decisions.⁴⁹
- Allowing subject matter experts to attend the 3-Star Review sessions ensured more factual and accurate discussion.⁵⁰

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSION

An important perspective which came out of the Joint Assessment Capabilities Study sums up why the PPBE process is difficult from a centralized viewpoint:

Because the Services receive more program guidance than they can resource, they are forced to make their own tradeoff judgments to comply with fiscal constraints. Service needs compete with joint needs, with tough choices required to create a fiscally responsible program. Service decisions are made in their own best interests and are then second guessed by the COCOMs, Joint Staff, and DoD and are often overturned during program review. This has resulted in an annual “train wreck” during program review. The train wreck occurs because joint needs are forced into the process after each Service has developed its own integrated system. The resulting budget does not optimize capabilities at either the Department or the Service level. The effort to modify the program and budget late in the process is labor intensive and adversarial.⁵¹

Services have the responsibility to organize, train, and equip their Service. Services view the PPBE process as long-term; COCOMs have immediate warfighting needs and often request immediate remedy from the Services, OSD, and the Joint Staff. OSD will still have difficulties getting the Service EAs to fund operational costs of the COCOM headquarters without issuance of a PDM, PBD or other written guidance.

Offsets will always be contentious. The perception by the components is their own administration has a double standard. How can we expect the program and budget process to be fair when our subordinate units do not trust submitting their offsets, knowing they are placing this offset at risk, if the change proposal is not accepted.

One of the best things about the whole process is the Services really do not end up getting too much friction in their POM/BES or change requests. Only slight adjustments are really done by DoD (usually 3 percent or less).

RECOMMENDATIONS

Some of the key points:

- Focus on joint capabilities

- Ensure that joint capabilities are developed and born joint, rather than forced into jointness late in their development
- Give COCOM commanders a key role in shaping the defense program
- Place emphasis on strategy and planning
- Impose fiscal discipline early in the process
- Avert December “train wrecks”
- Create feedback mechanism⁵²

Many of our DoD change proposals are a result of our wartime commitments. The DoD baseline budget does not include these shortfalls. The global war on terrorism is ongoing and there are no plans to stop this initiative in the near future. Services, COCOMs, and Defense-Wide Agencies must be adamant about scrubbing their requirements before their POM/BES submissions, to ensure they have captured all critical requirements. DoD currently includes many of our contingency costs (like Bosnia and Kosovo) in their baseline budget. There is discussion that DoD will begin to include Operation Iraqi Freedom in the Department’s budget in a few years, but not now. Without inclusion of known wartime costs, DoD will continue to get a large influx of program and budget change proposals. This can be done with increased awareness of valid DoD requirements. Both program and budget guidance must be more direct to include wartime all known valid requirements.

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